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DC Circuit refuses to delay approval of OCC's capital plan

The US Court of Appeals for the District of Columbia Circuit has denied a motion to delay approval of Options Clearing Corporation's (OCC) capital plan, paving the way for the payment of refunds and dividends to shareholder stock exchanges and clearing members totalling $291.5 million.

The DC Circuit dismissed the motion to delay the Securities and Exchange Commission's (SEC) de novo approval, filed by Bats Global Markets, Susquehanna International Group LLP, KCG Holdings, Box Options Exchange and Miami International Securities Exchange, on 23 February.

The petitioners had urged the DC Circuit to act quickly, arguing that it would be difficult for the SEC to unwind the capital plan, which will in essence see OCC shareholder stock exchanges, including Nasdaq OMX Group and Chicago Board Options Exchange, swap capital for dividends and refunds, once fully implemented.

With the motion to stay the SEC's approval dismissed, OCC can now proceed with issuing the refunds and dividends while also raising its total equity capital resources to $247 million.

OCC has confirmed that the final 2015 refund of $40 million, special refund of $69.4 million and 2015 dividend of $19.7 million were approved by OCC's board of directors on 19 February.

The 2014 refund of $33.3 million, the 2015 refund of $40 million and the 2015 dividend of $19.7 million were paid to clearing members and shareholder stock exchanges on 24 February, according to OCC.

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Trad-X and Eurex Clearing launch CCP swap service

Trad-X, a global interest rate derivatives platform provider, has implemented a new central limit order book for EurexOTC cleared products to tackle European Market Infrastructure Regulation (EMIR) requirements.

The central limit order book will initially focus on highly liquid euro interest rate swap tenors, including two-, five-, 10- and 30-year swaps, associated spreads and flys, and bund, bobl and Schatz asset swaps.

The new service will enable participants to switch positions from one central counterparty (CCP) to another, and optimise their margin exposure and boost liquidity.

London-based Trad-X will also run auctions to provide a CCP switch service between Eurex Clearing and LCH.Clearnet.

The new CCP switch service follows the launch of a similar market for US dollar products on TraditionSEF.

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SEC offers new liquidation rule for broker-dealers

The US Securities and Exchanges Commission (SEC) has proposed a new rule to make the liquidation process for large broker-dealers more orderly and efficient.

The rule outlines how to immediately notify interested parties that a liquidation proceeding has begun by filing a notice and application for protective decree in federal court. It also proposes the steps for transferring accounts to a bridge company for determining claims and distributing assets, and the roles of the Securities Investor Protection Corporation (SIPC) and the Federal Deposit Insurance Corporation (FDIC).

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NEXT GENERATION TRADING

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The 2015 special refund of $69.4 million will be paid "as soon as practicable in 2016", as long as the payment will not cause OCC's capital to fall below its total equity capital resource requirement of $247 million.

This payment would take total refunds and dividends under the capital plan to $291.5 million.

Craig Donohue, executive chairman of OCC, said in a statement: "The court's action is consistent with every SEC decision regarding the capital plan since 26 February 2015—amounting to nearly one full year's worth of unsuccessful challenges from the same group of petitioners—and further demonstrates the compelling public interest that OCC's capital plan serves."

"[The] decision also permits OCC to overcome the petitioners' roadblocks to facilitating the refunds and dividends that our clearing members and stockholder exchanges are entitled to under the plan."

The petitioners filed a motion to block the SEC's approval of OCC's capital plan on 12 February, arguing that it is "irrational" to swap OCC's own funds for "exorbitantly priced capital" from the shareholder stock exchanges.

The capital plan will create an unfair advantage for a systemically important financial market utility such as OCC, they argued, as it will also be able to implement a new fee schedule that will mark a 19 percent drop in cost.

OCC is the sole clearinghouse for exchange-listed options in the US and the capital plan effectively allows its shareholder exchanges to monetise the OCC's monopoly over options clearing for their benefit, they argued. Under the approved capital plan, OCC will pay dividends at a level some 16 to 20 percent higher than current market rates.

At the heart of the group's argument to have the approval overturned is the SEC's consultation process, which saw the US securities markets regulator receive a string of comments in opposition, all of which were largely ignored.

The SEC's approval "contains factual errors, ignores relevant data, fails to engage in necessary economic analysis and does not consider reasonable alternatives", they argued.

Bats, Susquehanna, KCG and others contested the capital plan last year, citing policy and competition concerns. They managed to convince the SEC to implement a temporary stay while the plan was reviewed, but that was eventually lifted and the plan later approved.

Trad-X and Eurex Clearing launch CCP swap service

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Dan Marcus, CEO of Trad-X, said: "Since launch we have set the industry standard for transparent and reliable pricing and believe there is a clear opportunity to pool our symbiotic strengths and further improve the trading and clearing experience."

"The addition of EurexOTC cleared products to the Trad-X universe, along with our award winning CCP switch service, provides users with greater post-trade flexibility and represents another example of tradition and the industry developing solutions to increase cost efficiencies and liquidity in this market."

Philip Simons, global head of fixed income trading and clearing sales at Eurex, added: "The biggest benefits result from clearing euro interest rate derivatives at Eurex Clearing when combining existing liquidity in Eurex's fixed-income futures with over-the-counter IRS."

"The equilibrium that exists amongst our end client portfolios, with a natural balance of payers and receivers, ensures any pricing differential between CCPs is genuine and based on real market supply and demand factors."

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According to the SEC, traditionally, the SIPC, a non-profit supported by broker-dealers created in the Investor Protection Act, oversees the liquidation of its bankrupt or troubled members and works to return missing securities and cash to customers. The better-known FDIC is a federal agency that, among other things, manages bank receiverships and examines banks for safety and consumer protection.

The proposed change was drafted after consultation with the FDIC and SIPC and would implement part of the Dodd-Frank Act, known as Title II, that created an alternative insolvency process for large financial companies.

The SEC said: "[The rule would] help ensure that customers are treated in a manner at least as beneficial as would have been the case in a liquidation under the Securities Investor Protection Act."

SEC chair Mary Jo White added in a statement: "This proposal will help ensure that in the event there is a need for the orderly liquidation of a broker-dealer, the process is handled in a manner that minimises disruption and promotes public confidence."

Hedge funds weather European banking storm

Renewed selling pressure has translated into sharp losses for risk assets, with the European banking sector at the forefront of the sell-off, says Lyxor Asset Management.

The asset manager's weekly brief on hedge fund trends explained that, as usual in such episodes, equities, commodities and high yield credit were down, while 'core' sovereign bonds posted gains. Investors were reassured that hedge funds have been pretty resilient in such adverse market conditions, according to Lyxor.

Lyxor's hedge fund index was down 2 percent between 2 and 9 February, while the MSCI World was down 3.3 percent, and high yield spreads widened by 40 and 60 basis points in Europe and the US, respectively.

Commodity trading advisors (CTAs) continue to outperform, while macro managers underperformed, according to the brief.

At the same time, European bank stocks have fallen rapidly, and credit spreads have widened.

"From our understanding, this is related to a combination of factors such as: disappointing earnings; issues related to specific banks in Germany and Switzerland that are systemic; unstable regulatory conditions and concerns over global growth conditions which is leading several central banks to cut rates further into negative territory."

Lyxor explained: "Yield curves have flattened as a result and it is hurting European banks' profitability. But their valuation has reached such depressed levels that to us, it seems out of sync with the fundamentals."

Lyxor concluded: "The direct impact of the European banking sector sell-off on hedge funds is likely to be negligible. Strategies that have single stocks and sector biases in portfolios such as long/short equity, event-driven and long/short credit have a limited overall exposure to European banks."

Brexit could threaten LSEG–Deutsche Börse merger

The potential merger of the London Stock Exchange Group (LSEG) and German exchange operator Deutsche Börse "would be put at risk" if the UK decides to leave the EU.

Current merger plans see the combined entity being domiciled in London with secondary offices in Frankfurt, where Deutche Börse is headquartered. "The parties are proceeding on the basis that existing regulatory and political structures remain in place," said Deutsche Börse in a briefing outlining the plans behind the merger.

Although an 'in' vote from the Brexit referendum (set for 23 June) is not a strict condition of the merger, an 'out' decision "might well affect the volume or nature of the business conducted in the different financial centres," Deutche Börse explained in a statement.

The proposed merger, first announced on 23 February, would reportedly be structured as an 'all-share merger of equals', creating a new holding company.

It is expected that Deutsche Börse shareholders would hold 54.4 percent of the new company. LSEG holders would hold the rest.

The new company would have a board composed of equal numbers of LSEG and Deutsche Börse directors.

Deutsche Börse's CEO Carsten Kengeter would lead the joint entity, with LSEG CEO Xavier Rolet stepping down.

Donald Brydon, currently LSE chairman, and David Warren, LSEG CFO and executive director, would both retain the same positions overseeing the new structure.

Hong Kong's SFC expands scope of short reporting

The Securities and Futures Commission (SFC) will broaden short selling reporting rules to cover all securities that can be sold short through the Hong Kong Stock Exchange.

The reporting threshold for stocks will not change, while the threshold for collective investment schemes will be set at HKD 30 million ($3.86 million).

Hong Kong's current reporting threshold is the lower of 0.02 percent of the stock's market capitalisation, or HKD 30 million.

The proposed amendments, which were reached with market consultation, will now be submitted to the Legislative Council for negative vetting.

The amended rules are currently set to come into effect on 15 March 2017, but are subject to the legislative process.

The SFC will make further announcements regarding operational reporting arrangements for the expanded regime "in due course".

The stock exchange recently reviewed its list of stocks approved for short selling.

The exchange added 32 additional securities to its short selling list and removed 12 existing designated securities, as of 19 February.

The likes of Everchina International, China Hing Bank and CCT Land Holdings are set to be added to the list, while Regal Hotels International, SinoMedia and ICOgroup will be some of the companies being removed.

The total number of designated securities for short selling is 870 after the revision.

Investor sentiment backs hedge fund allocation, finds Deutsche Bank

Hedge funds are jostling for investor allocation, will outperform equity markets and should be strongly considered by pension funds for allocation, according to Deutsche Bank's 14th Alternative Investment Survey.

The survey questioned 504 global hedge fund investors on their 2016 strategy.

Deutsche Bank found that 41 percent of respondents plan to increase their hedge fund allocations.

As a result, industry assets are expected to grow approximately 5 percent in 2016, surpassing $3 trillion, according to Deutsche Bank.

At the same time, pension funds' allocations to hedge funds continued their year-on-year growth. Pension funds averaged an 8 percent hedge fund allocation, up from 7 percent the year before.

Deutsche Bank attributed this shift to the fast growing trend of pension funds employing investment consultants to achieve a more scientific focus on alpha versus beta.

There are also greater demands on operational excellence, according to Deutsche Bank.

Of the pension fund survey respondents, 71 percent use an investment consultant, up from just 15 percent in 2010.

Managers, according to Deutsche Bank, are now competing for a place among an average of 36 funds (median 25) versus 60 (median 45) in 2008.

Due to a scarcity of alpha and capacity concerns, more investors are concentrating their portfolios in search of higher returns, reduced overall costs and greater portfolio efficiency, according to Deutsche Bank. The survey also found that an increasing emphasis is being placed on creating a partnership dynamic with hedge funds, as opposed to a client-service provider relationship.

More than two thirds of respondents placed access to founders, chief investment officers and senior investment professionals in their top three factors influencing the manager selection process.

One third of respondents also said they utilise single investment funds to create more tailored investment solutions.

Demand for non-traditional hedge fund products is also on the rise.

Investors are increasingly favouring alternative UCITS strategies, alternative '40 Act mutual funds and hybrid private equity-hedge fund vehicles, as well as long-only and co-investment opportunities.

Anita Nemes, global head of capital introduction at Deutsche Bank, commented: "Investors are becoming increasingly sophisticated in constructing their hedge fund portfolios."

"The return dispersion seen in 2015 means that choosing the right manager and constructing the right portfolio is ever more critical."

Nemes added: "Investors are concentrating and redesigning their portfolios in search of less correlated, diversified return streams."

AIMA publishes new operational risk management guide

The Alternative Investment Management Association (AIMA) has released its first guide on operational risk management for asset management firms.

The AIMA Guide to Sound Practices for Operational Risk Management focuses on a wide variety of risks that could result in loss from inadequate or failed internal processes, people and systems, or from external events.

The new guide, which is available to AIMA member firms, includes advice on areas such as trading, execution and market manipulation risk, post-trading risk, regulatory, and compliance risk, as well as technology, cyber security and outsourcing risks.

Jack Inglis, AIMA CEO, said: "Operational risk is an increasing focus of investors and regulators alike. Both of these groups will expect managers to have sound operational risk frameworks and will also be expecting next generation managers to be progressing along the spectrum of increasingly sophisticated approaches as they grow."

Daniel Johnson, head of Wells Fargo Global Fund Services for Europe, which sponsored the report, said: "In today's environment of increased regulatory and public scrutiny, it is imperative for small- to mid-sized alternative investment firms to stay abreast of best practices to enhance their operational risk management processes and procedures."

"This guide provides a basis from which managers can learn and adapt their operations to suit their ever-changing needs."

Crédit Agricole teams up with Eurex for IRS clearing

Crédit Agricole CIB is the latest investment bank to sign up to EurexOTC Clear as a direct clearing member for interest rate swaps (IRS).

The corporate and investment banking arm of the Crédit Agricole Group joins around 50 direct clearing members and 100 buy-side firms that are connected to Eurex Clearing's OTC service.

Arnaud d'Intignano, head of the transversal functions group within the global market division at Crédit Agricole CIB, said: "Joining EurexOTC Clear confirms Crédit Agricole CIB's commitment to be present where the bank's European clients choose to clear their OTC derivatives to comply with the European Market Infrastructure Regulation clearing obligation."

"We are already a clearing member of Eurex Repo and Eurex Bonds," added d'Intignano.

"This extended membership will allow the bank to benefit from cross margining and hence to reduce our clearing cost in the future."

Matthias Graulich, member of the Eurex Clearing executive board, added: "Direct membership to Eurex Clearing has been a trend we can observe over the past 12 months, therefore we are pleased that with Crédit Agricole CIB the next important French sell-side bank has joined our OTC clearing service for interest rate swaps."

"Our offering in general and direct membership in particular help to ease the rising costs of regulation by benefitting from margin, capital and collateral efficiency," added Graulich.

IOSCO establishes Asia Pacific hub

The first regional office of the International Organisation of Securities Commissions (IOSCO) will be located in Kuala Lumpur, Malaysia.

The new office, which is expected to open by the end of 2016, will serve as an Asia Pacific hub and be the international market regulator's only bricks-and-mortar presence outside of its headquarters in Madrid.

The hub will facilitate cross-border regulatory cooperation and contribute to the development of the region's capital markets through its initiatives, according to IOSCO.

IOSCO, as the global body of capital market regulators, has a hand in the regulation of more than 95 percent of the world's capital markets worth approximately $140 trillion, in more than 115 jurisdictions.

Dato' Seri Ranjit Ajit Singh, chairman of Securities Commission Malaysia, vice chairman of IOSCO's board and chairman of its growth and emerging markets committee, said: "The decision by IOSCO is an important milestone in the history of the organisation in setting up its first ever regional location."

"Capital markets globally have now become a key driver of economic growth and financing, and the Asia-Pacific region has some of the world's most significant economies and capital markets."

"The selection of Malaysia clearly demonstrates international recognition of Malaysia's efforts towards building a high quality and wellregulated capital market and the role of the country in the region."

OCC welcomes ISE Mercury Options as participant exchange

The International Securities Exchange's (ISE) newly launched options exchange, ISE Mercury, has become an Options Clearing Corporation (OCC) participant exchange.

With the addition of ISE Mercury, OCC now provides central counterparty clearing and settlement services to 19 exchanges and trading platforms for securities lending transactions, options, security futures, financial and commodity futures.

ISE Mercury began operations on 16 February and brings the total number of US options markets to 14.

"We congratulate the International Securities Exchange on the successful launch of ISE Mercury," said Michael McClain, OCC's president and COO.

"We are pleased to provide central counterparty clearing and settlement services to our newest participant exchange. As a systemically important financial market utility and a foundation for secure markets, we are looking forward to the success of ISE Mercury."

BM&F Bovespa sec lending soars

Brazilian central counterparty (CCP) BM&F Bovespa saw its year-on-year securities lending results for Q4 2015 achieve a 27.5 percent increase on Q4 2014.

Securities lending transactions reached BRL 25.5 million ($6.3 million) in Q4 2015, representing 4.2 percent of the total annual revenues for the CCP.

The growth came from a combination of a 19.6 percent increase in the average value of open interest positions, along with the removal of rebates, which have been in effect since January 2015, that were previously offered to some clients.

CIBC Mellon gains Front Street Capital mandate

CIBC Mellon is set to provide securities lending administration, custody and fund accounting services to Front Street Capital's 25 funds.

The asset servicing provider will also supply recordkeeping and investment information delivery for Front Street's growth, income and tax-minded funds.

Toronto-based Front Street Capital has served Canadian advisors and investors for over a decade and offers a variety of strategies, including mutual funds, hedge funds and flow-through limited partnerships.

David Conway of Front Street Capital said: "We are pleased to select CIBC Mellon as our service provider based on their technology, people and expertise in custody and asset servicing in Canada."

$27 billion could be at risk, says report

The annual industry-wide unsupported exposure due to collateral settlement failure, for 42 sell-side firms, is estimated to be nearly $27 billion, a DTCC-Euroclear Global Collateral and PwC report has warned.

The inclusion of buy-side participants and other sell-side firms, with the 42 covered receiving and delivering an average of $889.5 billion in over-the-counter (OTC) derivatives collateral assets between them in 2014, revealed the overall unsupported exposure would be much larger if the current 3 percent settlement fail rate for collateral movements prevails.

The average annual operational cost of remedying settlement fails could rise 407 percent to $3.6 million for each buy-side firm and 377 percent to $2.4 million for each sell-side firm by 2020, according to DTCC-Euroclear Global Collateral and PwC.

Thomas Ciulla, principal at PwC, commented: "While industry attention is focused on the impact and implementation of regulatory mandates that include uncleared/bilateral margin requirements, collateral settlement fails tend to escape closer scrutiny."

"A persistent issue now, due in part to simple counterparty miscommunication and constrained technology, collateral settlement fails will rise in proportion to the increased collateral movements that are a result of new uncleared/bilateral margining rules."

"The resulting operational and liquidity impact will be material and demands remediation."

Murex presents market risk solution following Basel's FRTB

Murex has devised a packaged solution to deal with the Basel Committee on Banking Supervision's new minimum capital requirements for market risk.

The requirements follow the Basel Committee on Banking Supervision's fundamental review of the trading book (FRTB), also known as BCBS 352.

The standard approach solution calculates the required curvature and sensitivities for all instruments, including complex exotic products. It delivers packaged aggregation for the FRTB's bucketing rules, as well as the default risk charge (SA-DRC) and the residual risk add-on.

For the internal model approach, the solution computes stressed expected shortfall by risk factor and liquidity horizon, non-modellable risk factors stress tests, and default risk charge.

It also addresses historical data quality issues via a proxy management framework for scenario generation.

Fallen by the sell side

The business case for indemnification, a tried and tested truth of securities lending's robustness if ever there was one, is increasingly being found wanting

The wave of regulation that came in the wake of the 2008 financial crash was significant enough to reshape the entire landscape of the securities lending sector, and nothing, even established features like indemnification, were spared.

Since the deluge of new regulatory demands—think Basel III et al—first began to transform the market ecosystem, the issue of indemnification has been bubbling away. Beneficial owners, or even securities lending as a whole, were never the primary targets of regulators, although shadow banking reforms threaten to change that. Nevertheless, the trickle down effect of their decisions has undoubtedly made its mark on both sides of the trade, through new capital and liquidity requirements and balance sheet restrictions, just to name a few.

Beyond the regulatory concerns, beneficial owners have also become a victim of their own success, as far as indemnification is concerned. What started as an enticing method used by agent lenders to bring beneficial owners back into the securities lending market after the crash has, thanks to massive growth in lending volume and average value, become difficult to sustain.

Today, some agent lenders say indemnification is too expensive, under-valued and unnecessary in an ultra-regulated trading environment. Many beneficial owners counter that indemnification is still an essential aspect of a securities lending programme and not to be tampered with.

It now serves to highlight the question of who needs who more in the agent lender-beneficial owner relationship. Do beneficial owners enjoy enough returns to justify them paying the extra costs for indemnification, which, in the end, is employed to satisfy their own investment guidelines? Or, given the negligible risk of loss compared to the cost of the cover, are they able to go without?

Alternatively, in a marketplace where supply dwarfs demand, do agent lenders need to accommodate beneficial owners' strict lending parameters, just to keep their assets available for lending?

J.P. Morgan's Paul Wilson argues: "As an agent lender, we expect to be paid a fair price for a fair service, and indemnification is part of that."

"It would be fair to say that, historically, indemnification has perhaps been under-valued, under-appreciated. Indemnification is certainly a key topic across the industry and for some agents. To be honest, it's probably one of the main issues for many."

At IMN's recent Beneficial Owners' International Securities Lending & Collateral Management Conference in Arizona, the future of indemnification featured prominently. During one panel discussion, it was described by Citi's David Martocci as the elephant in the room.

Another panel of agent lenders and prime brokers agreed unanimously that the problem with indemnification, as it currently exists, is that it's stagnant. They said it must evolve, given the pressure on spreads and increasingly onerous capital requirements.

The growing demand for upgrade and term trades within securities lending has also altered the state of play when it comes to borrower default indemnification.

As a result, blanket cover indemnities, currently enjoyed by some beneficial owners, are becoming a deeply unpractical and uneconomical offering for some agent lenders.

Wilson offers a more detailed explanation, saying: "This can create two issues for agents. Firstly, it's a question of capacity and having a sufficient capital base to support it. Second is whether there is a sufficient or reasonable return on equity being generated on that capital."

"In an environment where borrowers are looking to undertake more financing and/or balance sheet efficient trades, most notably upgrade and term trades, the consiquence of which is a shifting or increased expense for the agent."

The issue divides opinion among beneficial owners as much as agent lenders and brokers. Nevertheless, some typical investors, such as pension funds, are revisiting the question.

During one of the many indemnification-related debates at the IMN conference, panellist Gino Timperio of State Street suggested that a small but increasing proportion of State Street's clients are willing to forgo indemnification.

Wilson, on the other hand, states: "In conversations with our clients we know they really value the J.P. Morgan indemnification. I have seen some research and surveys that suggest that a good portion of beneficial owners are willing to consider foregoing indemnification but that doesn't really seem to be a message we have been hearing."

On the other side of the debate, speaking up for the conservative beneficial owner, Roelof Van Der Struik of PGGM Asset Management, said: "The main purpose of indemnification is that it aligns us with our agent lender because if we lose money, they lose money."

Fortune favours the brave, however, and beneficial owners willing to shed the restrictive safety net of an indemnity—widening their acceptable collateral parameters at the same time—will be well placed to capture revenue from the regulatory-driven demand by borrower for term and evergreen lending transactions.

At the same time, as the possibility of a post-indemnification world becomes more likely, it also reinvigorates the debate around the use of central counterparties (CCPs). For beneficial owners in need of a new form of investor protection to enable their securities lending programme to continue, CCPs may be the answer.

Commenting during a virtual roundtable in January 2015, James Slater of BNY Mellon said of CCPs: "Capital requirements and the leverage ratio are driving interest around the utilisation of CCPs. This isn't a new topic of conversation in the securities finance space, but it continues to attract more serious attention from market participants."

"We see most CCPs with committees or groups working on potential solutions for the securities finance market—in particular, to address participants' concerns around added costs, how to maintain confidence when participants don't get to choose counterparties, and the measures put in place to mitigate various processing risks."

Despite the regulatory impacts on indemnification being well known and well discussed for several years, it's still too early to tell which way the industry will go as the requirements come into effect.

During the IMN conference, a snap poll of the audience, which included representatives from all aspects of the securities lending sector, found that 100 percent of the buy side in attendance would be willing to negotiate different cost levels to borrow securities based on the risk weighting of beneficial owners.

For beneficial owners in the room, 31.3 percent said they would be willing to lend without indemnification. Citi's Martocci gave context to this figure, stating that if that question was posed even up until a year ago, he would have expected the percentage willing to do so to be around 5 percent.

Only 38.9 percent of beneficial owners said they would be willing to adjust their fee splits to include an indemnification feature, suggesting there is a small group of beneficial owners unwilling to lend without an indemnity but also unwilling to negotiate less favourable fee splits to pay for the service.

Only time will tell what happens to this demographic of lenders, but James Vance of the Western & Southern Financial Group, offers one pessimistic possibility, concluding: "Some pension funds will look at all the changes that are happening in the industry and say it isn't worth it anymore." **SLT**

Poles apart

The potential for growth may be substantial, but it is short sellers that are currently enjoying all the juice from electric cars, says David Lewis of FIS

In a little over 100 years, the automotive industry has developed beyond recognition, contrary to the expectations of the president of Michigan Savings Bank in 1903, who stated that “the horse is here to stay, but the automobile is a novelty—a fad” when advising against an investment in a little known start-up called the Ford Motor Co.

We now have self-parking and will no doubt, in a few years, have self-driving cars, yet the vast majority of vehicles, no matter how advanced they are, still rely on setting fire to an oil-based fuel we extract from the ground. Electric motors are beginning to replace the internal combustion engine and given some estimates indicating that there are 1.2 billion cars in the world today, the market for personal transport is huge.

Technological advances are beginning to combat some of the problems electric vehicles have faced. These issues are far from being resolved completely, but the potential driving range of new electric vehicles and the ease and speed with which they can be recharged are all improving. If this pace of development continues then it might be safe to assume that electric cars will begin to challenge the convenience and flexibility of petrol and diesel.

Hydrogen powered vehicles are also gaining ground, particularly in Japan where the convenience store chain, Seven-Eleven, has signed a deal with Iwatani Corporation to provide hydrogen fuel filling facilities at its shops in a bid to solve the availability issues such non-traditional fuels are facing.

With an enormous potential market, advancing technical developments and the expectations of environmental dividends for everyone, investing in electric car development should be ethical, responsible and indeed profitable. The first two measures are a matter of opinion—the third is a matter of fact and the industry, from an investment point of view, has been far from profitable. It would seem that the economic and political environment cannot help either.

Two companies that might be considered to be operating in vastly different environments are both suffering badly. In China, BYD Co Ltd (1211), and in the US, Tesla Motors Inc (TSLA), lead their respective markets in the development and production of electric vehicles, but as investments, neither could be described as charging ahead.

Alternative energies are inextricably linked to the traditional energy markets. The collapse in the oil price has made older technologies relatively cheap. In addition, falling growth expectations and tightening national budgets have caused subsidies to be cut. China is not immune to this pressure.

In what is an interesting move, especially in the context of political ideology, the Chinese government has cut subsidies to alternative energies including their support for BYD and their electric vehicles. In a statement few would have ever expected only a few years ago, the Chinese government has decreed that the market will decide if there is a place for electric vehicles suggesting it is not within their remit to unduly influence demand. BYD, described as the world’s largest electric vehicle maker and, contributing to China overtaking the US in 2015 in terms of overall ‘new energy’ vehicle production, will see its government subsidy eradicated by 2021. On top of this, BYD’s green energy vehicles are currently reliant on electricity created by dirty coal fueled power stations, meaning that its supposedly emission free vehicles are actually making the smog worse.

Tesla has been a regular member of our weekly hot stocks list as the borrow volumes continue to grow. Borrowing volume as a proportion of the shares available has been over 80 percent for the majority of the last 12 months—with demand levels this high, borrowing costs ensure this remains a hot stock. Over the last 24 months, Tesla shares have fallen 26 percent. This is despite very upbeat reports and expectations for their cars and associated energy storage developments. However, profits have eluded the company so far and the short side of the market continue to hold on to their positions and appear happy to meet the increased borrowing costs demanded of them. With share prices supposed to reflect the future expectations of a company’s value, a falling price with rising short interest does not bode well for Tesla.

BYD has suffered a very similar fate—over the same period of 24 months, the price of BYD shares has fallen 23 percent. Short interest in the stock has grown with the proportion of available shares being borrowed rising from 30 percent in the middle of 2015 to over 70 percent where they have remained since last November.

With Tesla claiming that it now has more than 107,000 vehicles on the roads in 42 countries, which are cumulatively approaching a mileage of two billion, rising at a rate of more than one million Autopilot miles per day, the statistics suggest that the adoption of electric cars in real-world motoring is becoming more tangible.

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David Lewis, EMEA head of Astec Analytics, FIS

Tesla, BYD and other manufacturers like them certainly appear to be leading the way to a cleaner, greener form of personal transport. However, while Tesla has certainly made inroads, the marketplace is a massive one. Its cars represent 0.0089 percent of those currently on our roads. The potential for growth may be substantial, but in the near-term, it is short sellers that are enjoying all the juice from electric cars. **SLT**

Industry Recruitment

Representative

Recruiter: ISLA
Location: London

An opportunity exists to join the small team at the International Securities Lending Association. The position will report to the ISLA COO.

Software designer

Recruiter: Lago Kapital
Location: Finland

We are now looking to strengthen our team with a software designer who has the ability to create, build and develop the in-house software systems and algorithmic trading software.

Product Specialist Role

Recruiter: EquiLend
Location: New York

EquiLend is seeking a product specialist to create a positive client experience for the user base by managing the on-boarding of new clients and providing quantitative support for existing clients.

Database Administrator

Recruiter: EquiLend
Location: New York

EquiLend is seeking a database administrator to perform basic database administration duties such as planning, maintaining and monitoring databases.

Industry **Events**

PASLA/RMA Conference on Asian Securities Lending

Date: 01-03 March 2016
Location: Singapore
http://landing.rmahq.org/pasla

The first industry-wide jointly sponsored conference in Asia developed by securities lending and borrowing professionals for securities lending and borrowing professionals.

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Comings and goings at CIBC Mellon, Credit Suisse and more

CIBC Mellon has appointed **Lisa Tomada** as global head of securities lending, following the promotion of **Jeffrey Alexander**.

Tomada will now lead client service and business development for CIBC Mellon clients seeking to tap into BNY Mellon's global securities lending programme.

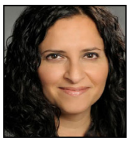
She previously served as legal counsel for capital markets as CIBC Mellon and BNY Mellon navigated the 2013 merger of their securities lending programmes.

Prior to joining CIBC Mellon, Tomada served as associate general counsel, associate corporate secretary and director for UBS Global Asset Management in Canada.

Alexander took on a new role as vice president and head of relationship management in February, after more than four years as global head of securities lending. He will still be affiliated with CIBC Mellon's securities lending service.

Tomada and Alexander will report to Rob Ferguson, senior vice president of business development, relationship management and capital markets.

Lisa Tomada previously served at UBS Global Asset Management in Canada



Tomada said: "CIBC Mellon and BNY Mellon are known across the industry for delivering strong, attentive client service that helps set us apart in the industry."

"I am very excited to take on this new role and I look forward to collaborating with CIBC Mellon's asset servicing clients as they tap into securities lending to help achieve their goals."

"This is an exciting time for the securities finance industry, as changing regulatory and business needs mean new solutions and new opportunities—particularly for those clients looking to take a collaborative, flexible approach to their securities lending activities."

Matthias Graulich has moved up the ranks of Deutsche Börse to become head of cross-markets strategy.

The new role, which he began in February, will focus on building out the strength of Deutsche Börse across trading, clearing, collateral, settlement and custody by combining the strategy development between Eurex Clearing and Clearstream.

Previously, Graulich was chief client officer for Eurex Clearing.

Graulich's previous role will be split between several people as part of a larger reshuffle of the whole organisation.

He remains a member of Eurex Clearing's executive board.

Credit Suisse's **John Dabbs** has been appointed global head of prime derivatives services, effective immediately.

Dabbs takes on the role from **Jeff Jennings**, who recently became head of Credit Suisse's European prime services in London. Dabbs will also join the prime services management committee and will report to Mike Paliotta.

Dabbs joined Credit Suisse in 2009 and has over 10 years of experience in the prime derivatives service, interest rate swaps and credit default swaps businesses.

Jennings will lead Credit Suisse's European prime services, following the departure of co-head Dougal Brech.

He will manage Europe-based prime services and report to Mike Paliotta. Regionally, he will report to Stephen Dainton, according to an internal memo.

Jennings, who will relocate to the UK, previously served as global head of prime derivatives services, a role he has held since he joined the bank in 2009. **SLT**

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